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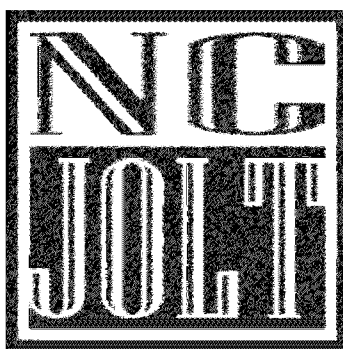
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**The Duty of Candor and Sanctions in the International  
Trade Commission**

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## I. Introduction<sup>2</sup>

When handling an investigation in front of the International Trade Commission<sup>3</sup> (“Commission”), one should not neglect the duty of candor. The duty is especially important at the Commission because (1) submissions are relied upon and taken at face value by the Commission; (2) the fast paced nature of § 337 proceedings requires expedient, full, and good faith disclosure of material information; and (3) submissions are not heavily scrutinized because the proceedings have a shorter timeframe than trials. Given the importance of the duty of candor, this article explores the Commission’s historical treatment of the duty of candor, practitioner obligations, and sanctions in the event of breach.

## II. The History of the Duty of Candor

Before 1988, the duty of candor was not explicitly defined in a rule; instead, it only existed implicitly.<sup>4</sup> However, the Commission adopted an explicit rule after its 1988 landmark decision in *Certain Indomethacin*, ITC Investigation No. 337-TA-183.<sup>5</sup> In *Indomethacin*, the Commission refused to impose sanctions for a complainant’s improper conduct because “the Commission did not articulate a duty of candor prior to [complainant’s] allegedly wrongful conduct.”<sup>6</sup> In the first concurring opinion, Vice Chairman Brunsdale, Commissioner Liebler and Commissioner Cass stated “it would be helpful, both to the Commission and to

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<sup>2</sup> This article was first published in the 337 Reporter in the 2006 Summer Associate edition, which is published by the International Trade Commission Trial Lawyers Association.

<sup>3</sup> In discussing the International Trade Commission, a brief background of the Commission and its connection to the area of intellectual property is necessary to the understanding of this article. The Commission is an independent federal quasi-judicial agency of the United States (U.S.) that provides trade expertise to the legislative and executive branches. Furthermore, the Commission judicially determines the impact of imports into the U.S. on U.S. industries and directs actions against certain unfair trade practices, such as the infringement of patents, trademarks and copyrights. Generally, many intellectual property lawsuits are brought at the Commission when imports coming into the U.S. are believed to infringe on current patents, trademarks, or copyrights. A court proceeding is held when an action at the Commission is commenced against an import that allegedly will infringe any intellectual property rights of a U.S. entity. The trial proceedings at the Commission are extremely quick because imports are held at ports pending the outcome of the proceedings. Indeed, these proceedings only last, from start to finish, a number of months. The Commission was necessary because normal federal court trials would take entirely too long (e.g. more than a year or multiple years) to adjudicate the import matters. Thus, in establishing the Commission, the federal government created a way to have lightning-fast determinations of whether imports will infringe on current intellectual property rights. The Commission is a significant part of Intellectual Property litigation. Many firms focus a great deal of their practice to proceedings in the Commission.

<sup>4</sup> *Certain Indomethacin*, Inv. No. 337-TA-183 (“*Indomethacin*”), Comm. Op. at 3 (June 30, 1988) (stating “[a]lthough the duty of candor has existed implicitly for many years, its scope has not been defined”).

<sup>5</sup> See *id.* at 2; see also DONALD KNOX DUVALL ET AL., INTELLECTUAL PROPERTY: UNFAIR COMPETITION AND THE ITC: ACTIONS BEFORE THE INTERNATIONAL TRADE COMMISSION UNDER SECTION 337 OF THE TARIFF ACT OF 1930, 148-149 (2005).

<sup>6</sup> Inv. No. 337-TA-183, Comm. Op. at 3.

future complainants, for the Commission to clearly articulate the duty of candor that is owed to the Commission.”<sup>7</sup> Following this lead, in the second concurring opinion, Commissioners Eckes, Lodwick and Rohr explained the duty of candor:

the duty of candor . . . is violated when there is clear and convincing evidence of: (1) *a failure to disclose material information, or a submission of false, material information; and* (2) *an intent to mislead the Commission*. A nondisclosure or false statement is "material" when there is a substantial likelihood that a reasonable decisionmaker would have considered the nondisclosed or false information to be important in deciding whether to institute an investigation, not whether the information would have been dispositive. The "intent to deceive" element includes gross negligence. *Materiality and intent are interrelated: the more important an omission or misrepresentation, the less intent need be shown.*<sup>8</sup>

Accordingly, shortly after this decision, the Commission adopted Interim Rule 210.5, explicitly setting forth the duty of candor required to the Commission in all phases of § 337 proceedings and, in the event of breach, providing for non-monetary sanctions. Then, in 1994, the Commission replaced Interim Rule 210.5 with the present rule, 19 C.F.R. § 210.4 (“Rule 210.4”), to include both monetary and non-monetary sanctions when a practitioner violated the duty of candor.<sup>9</sup>

## **II. Practitioner’s Obligation of the Duty of Candor**

The duty of candor owed to the Commission is described by Rule 210.4.<sup>10</sup> Specifically, Rule 210.4(b) requires practitioner verification of all submissions to the Commission.<sup>11</sup> By verifying such submissions, the practitioner attests pursuant to Rule 210.4(c) that (1) the submissions are not presented for an improper purpose (e.g. to harass, delay proceedings, or increase the costs of the proceedings); (2) the legal contentions are not frivolous (i.e. all legal contentions are warranted by existing law or by valid argument for extension, modification, or reversal of existing law); (3) the contentions have evidentiary support; and (4) the denials of factual contentions are warranted on the evidence.<sup>12</sup>

In complying with these provisions, the practitioner should undertake

<sup>7</sup> *Id.*, Concurring Opinion at 11-12.

<sup>8</sup> *Id.*, Concurring Opinion at 12-13 (emphasis added).

<sup>9</sup> See DUVALL ET AL., *supra* note 4, at 138 n. 1.

<sup>10</sup> See 19 C.F.R. § 210.4(b), (c). Rule 210.12(h) is also relevant to the duty of candor.

Specifically, Rule 210.12(h) states that the complainant has a duty to supplement a complaint if she obtains information she knows or reasonably should know that any material assertion in the complaint is false or misleading. See also DUVALL ET AL., *supra* note 4, at 138-9.

<sup>11</sup> 19 C.F.R. § 210.4(b). Like Rule 11 of the Federal Rules of Civil Procedure, these verifications are enforceable by sanctions.

<sup>12</sup> 19 C.F.R. § 210.4(c)(1)-(4); see DUVALL ET AL., *supra* note 4, at 138-9.

reasonable avenues of investigation before filing suit.<sup>13</sup> For example, in an investigation alleging patent infringement, an attorney should abide by the following reasonable practices: (1) construe patent claims following standard construction canons,<sup>14</sup> (2) analyze claims independent of the client; (3) gather credible evidence of the accused device,<sup>15</sup> and (4) compare the evidence on the accused device with reasonably construed claims. In determining reasonableness, the Commission will take into account the degree of difficulty of analyzing the accused products or processes. If a practitioner does not follow reasonable practices, the Commission may rule the practitioner was negligent and, therefore, breached his or her duty of candor.

### III. Sanctions for Breach of the Duty of Candor

#### A. The Breach

In the event that a party violates Rule 210.4(c),<sup>16</sup> the Commission may impose appropriate sanctions upon that party, subject to the conditions stated in Rule 210.4(d) and Rule 210.25. For example, sanctions are proper for a frivolous representation or submission, a Rule 210.4(c)(2) violation. However, a representation need not be frivolous in its entirety in order for an Administrative Law Judge (“ALJ”) to determine that Rule 210.4(c) has been violated because, if “any portion of any representation” is “frivolous, misleading, or otherwise in violation of [Rule 210.4(c)], a sanction may be imposed.”<sup>17</sup>

When determining whether Rule 210.4(c) has been violated, the Commission usually asks whether the practitioner’s representation “was objectively reasonable under the circumstances.”<sup>18</sup> In some cases, the ALJ requires the practitioner to “show cause” as to why sanctions should not be

<sup>13</sup> See *Certain Point of Sale Terminals and Components Thereof*, Inv. No. 337-TA-524, Order No. 48 (June 7, 2005) (sanctioning complainants \$1 million because their pre-filing inquiry was inadequate).

<sup>14</sup> Claim construction must be reasonable, but need not agree with the court’s construction. Also, a claim chart is not necessary to make an inquiry reasonable. See *id.*

<sup>15</sup> Reasonable practices in gaining evidence include: (1) testing, reverse engineering, or consulting sales personnel; (2) contacting the accused infringer and suppliers for information on the accused product or process; (3) reviewing available literature on the accused device; (4) hiring experts to analyze the allegedly infringing device against the claims; (5) researching at trade shows; and (6) checking regulatory filings. See *id.*

<sup>16</sup> In addition to sanctions for violations of Rule 210.4(c), Rule 210.25 states that “any party may file a motion for sanctions for abuse of process under § 210.4(d)(1), abuse of discovery under § 210.27(d)(3), failure to make or cooperate in discovery under § 210.33 (b) or (c), or violation of a protective order under § 210.34(c).” 19 C.F.R. § 210.25(a)(1).

<sup>17</sup> 19 C.F.R. § 210.4(d); see also DUVALL ET AL., *supra* note 4, at 140.

<sup>18</sup> *Id.*; see, e.g., *Concealed Cabinet Hinges*, ITC Inv. No. 337-TA-289, Comm. Op. at 11 (January 9, 1990); *Certain Salinomycin Biomass and Preparations Containing Same*, ITC Inv. No. 337-TA-370, Comm. Op. at 30 (February 6, 1995); *Starter Kill Vehicle Systems*, ITC Inv. No. 337-TA-379, Order 12 (March 5, 1996); *Eprom*, ITC Inv. No. 337-TA-395, Comm. Op. at 90-91 (December 11, 2000).

imposed.<sup>19</sup>

### ***B. Sanction Proceedings***

Sanction proceedings are initiated either (1) by the initiative of any of the parties, or (2) on the Commission's or ALJ's initiative. First, any party may file a motion for sanctions. This motion shall describe the specific conduct alleged to violate Rule 210.4(c) and shall be served against the party alleged to have filed a frivolous submission.<sup>20</sup> If the submission is not withdrawn within seven days (called the "safe harbor" period),<sup>21</sup> only then may the sanction motion be presented to the ALJ or the Commission.<sup>22</sup> Secondly, the ALJ or the Commission may issue an order, *sua sponte*, for sanctions. This order describes the specific conduct that appears to violate Rule 210.4(c)<sup>23</sup> and directs the violating party to "show cause" as to why it has not violated this Rule.<sup>24</sup>

If, after giving notice and a reasonable opportunity to respond,<sup>25</sup> the ALJ or the Commission determines that Rule 210.4(c) has been violated, the ALJ or the Commission shall impose "an appropriate sanction" upon the responsible party.<sup>26</sup> The "responsible party" may include not only a client's counsel but also the client.<sup>27</sup> Further, a law firm shall be held jointly responsible for violations committed by its partners, associates, and employees.<sup>28</sup> When imposing sanctions on a party, the ALJ or the Commission shall describe the violating conduct and

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<sup>19</sup> See, e.g., *Data Storage Systems*, ITC Inv. No. 337-TA-471 (March 28, 2003).

<sup>20</sup> 19 C.F.R. § 210.4(d)(1)(i).

<sup>21</sup> This seven day "safe harbor" provision is similar to the twenty-one day "safe harbor" provision of Rule 11 of the Federal Rules of Civil Procedure. See Fed. R. Civ. P. 11(c). The "safe harbor" provision gives the party filing an allegedly frivolous paper to withdraw such paper. See DUVALL ET AL., *supra* note 4, at 143.

<sup>22</sup> 19 C.F.R. § 210.4(d)(1)(i); see *Hardware Logic Emulation Systems*, ITC Inv. No. 337-TA-383, Order 96 (stating that "a party cannot delay serving its Rule 11 motion until conclusion of the case"); *Oscillating Sprinklers*, ITC Inv. No. 337-TA-448, Order 25 (September 25, 2001) (refusing motion for sanctions due to non-compliance with the "safe harbor" rule); *Semiconductor Light Emitting Devices*, ITC Inv. No. 337-TA-444, Order 6 (June 27, 2001) (rejecting motion for sanctions filed after the "safe harbor" period); *Eprom*, ITC Inv. No. 337-TA-395, Comm. Op. at 91 (December 11, 2000) (denying motion for sanctions due to not following the "safe harbor" rule). But see *Salinomycin*, ITC Inv. No. 337-TA-370, Commission Order (February 26, 1996) (stating that the "safe harbor" provision may be fulfilled by sending a letter to complainant within the seven day period indicating (1) respondent's opinion that the patent at issue was invalid, and (2) that respondents would seek attorney's fees if complainant continued with the suit); see also DUVALL ET AL., *supra* note 4.

<sup>23</sup> 19 C.F.R. § 210.4(d)(1)(ii).

<sup>24</sup> See, e.g., *Data Storage Systems*, ITC Inv. No. 337-TA-471; see also DUVALL ET AL., *supra* note 4, at 142.

<sup>25</sup> See 19 C.F.R. §§ 210.4(d)(1)(i), (d)(1)(ii), and 210.25.

<sup>26</sup> 19 C.F.R. § 210.4(d).

<sup>27</sup> See, e.g., *Salinomycin*, ITC Inv. No. 337-TA-370, Comm. Op. at 53; *Concealed Cabinet Hinges*, ITC Inv. 337-TA-289, Comm. Op. at 11 (January 9, 1990).

<sup>28</sup> See *Concealed Cabinet Hinges*, ITC Inv. 337-TA-289, Comm. Op. at 11; see also *Salinomycin*, ITC Inv. No. 337-TA-370, Comm. Op. at 55-56. n. 28.

explain the sanctioning basis.<sup>29</sup>

### *C. The Scope of Sanctions*

Generally, Rule 210.4 limits the scope of sanctions to what is “sufficient to deter repetition of such conduct or comparable conduct similarly situated.”<sup>30</sup> Specifically, subject to the limitations of Rule 210.4(c), Rule 210.4(d)(2) details what sanctions may consist of: non-monetary directives and monetary sanctions, including penalty fees, reasonable attorney’s fees, or other expenses reasonably incurred as a direct result of the violation.<sup>31</sup> Monetary sanctions are, however, discretionary. The intended purpose of such sanctions is to deter improper conduct, not to provide compensation.

If a motion requests attorney’s fees, the ALJ may issue an order to determine if attorney’s fees are appropriate. If the Commission agrees with the order, then the Commission will return the case to the ALJ to quantify the amount of attorney’s fees to award. This amount is based on a reasonable amount of attorney hours multiplied times a reasonable hourly rate.<sup>32</sup>

## **IV. Exemplary Cases**

### *A. Salinomycin*

In *Salinomycin*,<sup>33</sup> the ALJ recommended that the Commission impose sanctions on complainant and his counsel for bringing a frivolous action to the Commission. Specifically, there was no “objectively reasonable” basis for maintaining that the patent-in-suit was (1) not invalid for failing to disclose the best mode and (2) not unenforceable for knowingly concealing the best mode from the U.S. Patent and Trademark Office.<sup>34</sup> This case confronted two main issues: the “safe harbor” rule and a determination of attorney’s fees and costs.

First, complainants argued that respondent’s motion, which was filed after an ALJ ruling, is in violation of the “safe harbor” rule because complainants did not have a chance to withdraw the submission at issue—a clear purpose of the “safe harbor” rule. In disagreeing with this argument, the ALJ noted that

<sup>29</sup> 19 C.F.R. § 210.4(d)(3); *see also* 19 C.F.R. § 210.25(d)–(f).

<sup>30</sup> 19 C.F.R. § 210.4(d)(2); *see Salinomycin*, ITC Inv. No. 337-TA-370, Comm. Op. at 53.

<sup>31</sup> 19 C.F.R. § 210.4(d)(2), (d)(1)(i). However, monetary sanctions cannot be levied against the U.S., the Commission, or a Commission attorney. Additionally, monetary sanctions that result from an attorney advancing a frivolous legal argument shall be levied only against that attorney and not the represented party. 19 C.F.R. § 210.4(d)(2)(i)–(iii).

<sup>32</sup> This is called the *Hensley* test. *See Hensley v. Eckerhart*, 461 U.S. 424, 434 (1983). In *Hensley*, the Court established standards indicating when attorney’s fees are appropriate and, if so, how much shall be awarded. *See id.*; *see also* DUVALL ET AL., *supra* note 4, at 142-3.

<sup>33</sup> *Salinomycin*, ITC Inv. No. 337-TA-370, Recommended Determination Concerning Respondents’ Motion for Sanctions (May 14, 1997).

<sup>34</sup> *See* DUVALL ET AL., *supra* note 4, at 143.

respondents sent complainants a letter prior to the ALJ determination informing complainants that they would seek attorney's fees if the suit continued. The ALJ indicated that respondents fulfilled the "safe harbor" provision with this letter because it was the "substantial equivalent" of a timely motion for sanctions.<sup>35</sup>

Next, in deciding attorney's fees, the ALJ applied the "objectively reasonable under the circumstances" standard rather than either the strict standard applied in patent cases<sup>36</sup> or the "sham" litigation standard explained by the Supreme Court.<sup>37</sup> Accordingly, the ALJ decided that complainant's conduct was to "squelch legitimate competition," which clearly was not "objectively reasonable."<sup>38</sup> In order to "deter such conduct," the ALJ recommended that the complainant and counsel pay twice the respondent's attorney fees and costs.<sup>39</sup>

### ***B. Hardware Logic Emulation Systems***

In *Hardware Logic Emulation Systems*,<sup>40</sup> respondents mooted the investigations by ceasing importation of the accused device, but did not withdraw their invalidity defenses or provide any evidence to support such defenses.<sup>41</sup> Accordingly, the ALJ found that respondents violated Rule 210.4(c) by asserting defenses (1) without presenting evidentiary support and (2) for the improper purpose of burdening complainants with the expense to prove their patents were valid and infringed.<sup>42</sup> Consequently, the ALJ ordered respondents to pay for complainant's attorney fees and other expenses incurred in responding to respondents' frivolous defenses.<sup>43</sup>

On appeal, however, the Commission reversed the ALJ's decision.<sup>44</sup> As stated under Rule 210.4(d)(1), a motion for sanctions "must describe the specific conduct alleged to violate [Rule 210.4] (c)."<sup>45</sup> Additionally, under the "safe harbor" rule, once a motion for sanctions has been served on a party, that party

<sup>35</sup> See DUVALL ET AL., *supra* note 4, at 143.

<sup>36</sup> See 35 U.S.C. § 285. Under 35 U.S.C. § 285, fees are awarded only for exceptional cases. This is a stricter standard than Rule 210.4 or Rule 11.

<sup>37</sup> See *Professional Real Estate Investors v. Columbia Pictures Indus., Inc.*, 113 S. Ct. 1920, 1928 (1993). In *Professional Real Estate Investors*, the Supreme Court developed a two-part test for determining "sham" litigation. However, that test is not applicable to sanctions under Rule 210. 4. See also DUVALL ET AL., *supra* note 4, at 144.

<sup>38</sup> *Salinomycin*, ITC Inv. No. 337-TA-370, at 30.

<sup>39</sup> *Id.* at 53.

<sup>40</sup> *Certain Hardware Logic Emulation Systems and Components*, ITC Inv. No. 337-TA-383, Comm. Non-Review (October 2, 1997).

<sup>41</sup> See DUVALL ET AL., *supra* note 4, at 145-6.

<sup>42</sup> See *id.*

<sup>43</sup> *Hardware Logic Emulation Systems*, ITC Inv. No. 337-TA-383, Comm. Non-Review (October 2, 1997).

<sup>44</sup> *Hardware Logic Emulation Systems*, ITC Inv. No. 337-TA-383, Comm. Op. on Appeals of ALJ Order No. 96 (May 27, 1998).

<sup>45</sup> 19 C.F.R. § 210.4(d)(1).



has an opportunity to withdraw the disputed papers to avoid sanctions.<sup>46</sup> Here, complainant's motion was directed toward respondents' papers in the Prehearing Statement and because respondents timely withdrew such papers, they could not be sanctioned.

After this decision, the Commission strictly applied the "safe harbor" rule in order to preserve the rule's purpose.<sup>47</sup> Indeed, a strict adherence to procedural requirements benefits "the Commission and the parties by promoting transparency, objectivity and predictability in the application of the Commission's rules regarding sanctionable conduct."<sup>48</sup>

### ***C. Concealed Cabinet Hinges***

In *Concealed Cabinet Hinges*,<sup>49</sup> respondents filed a motion for terminating the investigation. They asserted that the complainants violated the duty of candor with false statements, omissions, and misrepresentations of fact in their complaint. The Commission, along with the ALJ, agreed to dismiss the complaint because the client actively participated in the misconduct.<sup>50</sup>

As far as sanctioning counsel, the Commission acknowledged that allocating fault between client and attorney was challenging. However, counsel was at least responsible for drafting a misleading complaint.<sup>51</sup> The Commission publicly remanded the attorney<sup>52</sup> and issued a notice to attorneys: "counsel has an affirmative duty to make certain that the client understands (1) the legal significance of the factual allegations in the complaint, and (2) the consequences to the client and its case if the allegations prove to be baseless."<sup>53</sup>

## **V. Conclusion**

The duty of candor is important to the fair, orderly, and quick disposition of cases before the Commission. Yet, the Commission has shown it is equally

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<sup>46</sup> *Id.*

<sup>47</sup> See *supra* text accompanying note 22 for cases strictly applying the "safe harbor" rule. This rule's purpose is to encourage a party to timely withdraw a challenged paper. The procedural requirements are in place to give notice as to the specific papers that should be withdrawn. In *Hardware Logic Emulation Systems*, the respondent withdrew the papers that were specifically mentioned in the motion and thus, complied with the Commission's rules. See also DUVALL ET AL., *supra* note 4, at 147-8.

<sup>48</sup> *Hardware Logic Emulation Systems*, ITC Inv. No. 337-TA-383, Comm. Op. on Appeals of ALJ Order No. 96, Additional and Dissenting Views of Chairman Marcia E. Miller (May 27, 1998); see also DUVALL ET AL., *supra* note 4, at 145-6.

<sup>49</sup> *Certain Concealed Cabinet Hinges and Mounting Plates*, ITC Inv. No. 337-TA-289 (January 9, 1990).

<sup>50</sup> See *id.*

<sup>51</sup> See *id.*, Comm. Op. at 13; see also DUVALL ET AL., *supra* note 4, at 145-6.

<sup>52</sup> This case was prior to Rule 210.4 and, thus, the Commission did not have authority to issue attorney's fees.

<sup>53</sup> *Concealed Cabinet Hinges*, Comm. Op. at 13-17.

important that built-in procedural protections, such as the “safe harbor” rule, are strictly interpreted and applied. Since the 1994 adoption of Rule 210.4, the Commission has heavily enforced the rules regarding the duty of candor. Accordingly, neither practitioners, clients, nor law firms should overlook or neglect the duty of candor, because at stake are the dismissal of the case and/or severe monetary sanctions.